

**STATE OF CALIFORNIA
DEPARTMENT OF INSURANCE
45 Fremont Street, 21st Floor
San Francisco, California 94105**

RH03026431

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CALIFORNIA LOW COST AUTOMOBILE INSURANCE PROGRAM RATES

<p>Summary of Comments and Department Responses 45-Day Comment Period Ending May 16, 2003</p>
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1. COMMENT (Oral and Written)

At the public hearing on May 7, 2003, Richard Manning, Regional Director of the California Automobile Assigned Risk Plan (CAARP), summarized CAARP's 2003 rate recommendation to increase rates, a copy of which is available for public review in the rulemaking file. Mr. Manning commented that because actual claims experience for the Low Cost Auto Program from July 1, 2000 through September 30, 2002 is too low for credibility, CAARP instead analyzed comparable CAARP data. Based on its analysis of CAARP data, CAARP proposes to reinstate premiums to the initial rates of \$450 for Los Angeles county and \$410 for the City and County of San Francisco. Mr. Manning noted that the initial studies completed by Donald Bashline, from which the legislature set initial program rates, were based on voluntary market data. The commenter contends, however, that CAARP data should be used because the lack of previous insurance characterizing the low cost auto policyholder is more consistent with CAARP policyholders. In its rate recommendation, CAARP also proposes to maintain the current 25 percent surcharge for unmarried male drivers between the ages of 19 through 24 years of age.

1. RESPONSE

The Department has carefully reviewed CAARP's rate application and considered the comments and declines to accept the rate increase proposal, but accepts the recommendation to maintain the current surcharge rate. Using the approach first developed by consulting actuary Donald Bashline for the initial rates for the low cost auto policy, the Department has determined that the current rates of \$347 for Los Angeles and \$314 for San Francisco are adequate and meet the rate-setting standards of California Insurance Code Sections 11629.72 and 11629.92. Please refer to the Final Statement of Reasons, pages 1 and 2.

Calculating rates based on data from basic limits policies in the voluntary market, rather than data based on CAARP policyholders, is reasonable and consistent with the legislature's approach in setting initial rates for the pilot program, and consistent with Senator Escutia's approach in reducing rates enacted in 2002 Stats., chapter 742. In fact, it replicates the approach taken by CAARP in developing a rate option in its 2002 rate recommendation.

Section 27 of the program's Plan of Operations will be amended to show rates of \$347 for Los Angeles and \$314 for drivers in the city and county of San Francisco, with a 25 percent surcharge rate for unmarried male drivers between the ages of 19 through 24 years of age.

2. COMMENT (Oral and Written)

At the public hearing, Robert Downer, a consulting actuary representing the Personal Insurance Federation of California, summarized his written testimony, a copy of which is available for public review in the rulemaking file. He commented that CAARP or non-standard insured drivers are more like low cost auto customers than the general auto insurance population and supports using their experience for rating. He based his opinion on three criteria: similar low percentage of prior insurance, similar low renewal persistency, and the geographic mix of business between Los Angeles and San Francisco counties. Using CAARP data, he concluded low cost auto policy rates should be higher than those enacted by Senate Bill 1427, ranging from \$404 to \$807 for Los Angeles and from \$361 to \$807 for San Francisco. The commenter recommended increasing rates to the original rates of \$450 for Los Angeles and \$410 for San Francisco.

2. RESPONSE

After carefully reviewing the written testimony and exhibits submitted by Mr. Downer and considering comments, the Department declines to accept the suggestion to increase rates to \$450 for Los Angeles and \$410 for San Francisco. In determining to maintain current rates, the Department used the approach developed by Mr. Bashline, utilizing updated data from basic limits policyholders collected by the Department's Statistical Analysis Bureau and loss trend factors taken from the latest CAARP filing, which were themselves based on National Association of Independent Insurers (NAII)/Insurance Services Office (ISO) Fast Track data. The commenter's criticism pertaining to geographic mix overlooks the fact that separate rates are calculated for San Francisco and Los Angeles. Moreover, following the Bashline approach, only the experience of San Francisco and Los Angeles counties in the voluntary market were used. Please refer to the response to Comment No. 1 for further discussion of the Department's rationale. Also, in response to a question from panelist Eric Johnson, Mr. Downer acknowledged that the non-standard or CAARP group may not be an appropriate comparable group and recommended continuing efforts to identify the best comparable groups for rating low cost policies. See Transcript, p. 21.

Section 27 of the program's Plan of Operations will be amended to show rates of \$347 for Los Angeles and \$314 for drivers in the city and county of San Francisco.

3. COMMENT (Oral and Written)

At the public hearing, Mark Savage, on behalf of the Consumers Union, commented on the important underlying public policy concerns of keeping low rates for the pilot program. Referring to exhibits submitted, a copy of which is available for public review in the rulemaking file, he compared voluntary market prices listed in the Department's 2002 Auto Premium Survey for all basic coverages of bodily injury, property damage,

uninsured motorists and medical payments with CAARP's rate proposal. Voluntary market prices were significantly less than CAARP's rate proposals. Mr. Savage supported maintaining current rates of \$347 in Los Angeles and \$314 in San Francisco. Mr. Savage also commented that prior insurance, renewal persistency and the ratio of business in Los Angeles to San Francisco, mentioned by Mr. Downer in support of using CAARP data, are not statutory auto rating factors.

3. RESPONSE

The Department accepts the recommendation to maintain current rates of \$347 for Los Angeles county and \$314 for the city and county of San Francisco. Also, the Department notes Consumers Union's public policy concerns regarding the importance of keeping rates low for the pilot program. Section 27 of the program's Plan of Operations will be amended to reflect these rates.

4. COMMENT (Oral and Written)

At the public hearing, Douglas Heller, on behalf of the Foundation for Taxpayer and Consumer Rights, commented that the Low Cost Auto Insurance Program is an essential part of addressing the uninsured motorist problem because a poor family cannot afford private market rates. Based on written technical comments submitted as testimony by the Foundation's actuarial expert, Allan Schwartz, a copy of which is available for public review in the rulemaking file, Mr. Heller commented that current rates set by SB 1427 are 8.9% too high. He also commented that the initial baseline rate set by the legislature was set higher than actuarially indicated as a compromise to industry and has suppressed consumer interest. According to Mr. Schwartz's analysis of indicated rates, Mr. Heller proposed rates of \$316 for Los Angeles and \$286 for San Francisco. Mr. Heller supported the lower rates, or at minimum, retaining current rates.

As to the surcharge, Mr. Heller commented that the initial surcharge rate was the result of negotiation rather than actuarial assessment. He objected to the arbitrary age, gender, and marital status scheme. The commenter did not have an alternative rate to propose.

Mr. Heller also commented that the factors mentioned by Mr. Downer regarding comparable risk groups appear to be surrogates for income rather than risk factors and that the policy of the state is not to look at prior insurance.

4. RESPONSE

The Department accepts the alternative recommendation to maintain current rates of \$347 for Los Angeles county and \$314 for the city and county of San Francisco. The Department declines to accept the recommendation for lower rates because it is based on actual experience which is not fully credible. Please refer to the response to Comment No. 1 for further explanation of the Department's rationale. Section 27 of the program's Plan of Operations will be amended to reflect these rates, with a 25 percent surcharge rate for unmarried male drivers between the ages of 19 through 24 years of age.